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# Baton Broadcasting Incorporated Annual Report

1975

# Directors and Officers

JOHN WHITE HUGHES BASSETT
President, Chairman of the Board and Director

GORDON VINCENT ASHWORTH, C.A.
Executive Vice-President and Director

EDWARD JOSEPH DELANEY
Vice-President, Secretary and Director

JOSEPH JOHN GARWOOD, C.A.
Vice-President, Treasurer and Director

FOSTER WILLIAM HEWITT
Vice-President and Director

DOUGLAS GRAEME BASSETT
Director

ALLAN LESLIE BEATTIE, Q.C.
Director

CHARLES FOWLER WILLIAMS BURNS
Director

DONALD HATCH DAVIS
Director

FREDRIK STEFAN EATON
Director

EDWIN ALAN GOODMAN, Q.C.
Director

TRANSFER AGENT AND REGISTRAR
The Canadian Imperial Bank of Commerce

AUDITORS
Clarkson, Gordon & Co.

# Report to the Shareholders

On behalf of the Board of Directors of Baton Broadcasting Incorporated, I am pleased to present the annual report of the Company for the year ended August 31, 1975.

Consolidated net income for the year amounted to $4,753,948 or 68.9 cents per share. This compares to net income for the preceding year of $3,610,709 or 52.2 cents per share before the inclusion of an extraordinary profit.

Last year an extraordinary profit of $1,135,620 after taxes was earned through the sale of the Toronto Argonaut football franchise. This represented an additional 16.4 cents per share to 1974 net income.

Revenue from the sale of air time increased by $2,821,971 or 11.7% over the preceding year, while production revenue climbed $636,300 or 6.4% over last year. Operating expenses during the year declined $194,884 or .7% due largely to the discontinuance of the operations of the Argonaut Football Club.

## Television

The Company's television stations in Toronto, Ontario, CFTO-TV and Saskatoon, Saskatchewan, CFQC-TV continued to show strong gains throughout the year both in revenue and earnings. Both stations are rated number one among viewers in their respective market areas.

CFTO-TV expects to move its transmitter to the top of the new CN Tower in the spring of 1976. This move will extend the Station's off-air television signal to approximately 700,000 more persons in Ontario, and improve the signal for others within its present viewing area.

## Radio

The Company's radio station in Saskatoon, Saskatchewan, CFQC showed substantial improvement in operating results over the previous year. This improvement reflects increases in advertising revenue. CFQC is the number one rated station among radio listeners in its area. The operations of Ottawa radio station CFGO continued to improve and reflect gains in advertising revenue compared with last year. The latest audience ratings show CFGO as the number two rated radio station in the Ottawa market. When we purchased this station in 1971 it was last in the market – seventh in ratings. Last June CFGO moved from leased premises to a new studio acquired by the Station early in 1975.

The operating results of our radio station CKLW in Windsor, Ontario, continued to show a decline in 1975 below the preceding year reflecting the poor economic conditions that exist in the Detroit market. The Station continues to rate as number one among radio listeners in its coverage area. However, we do not expect any significant financial improvement until economic conditions in Detroit improve.

The Station's broadcasting license due to expire January 25, 1976 has been extended by the Canadian Radio-Television Commission, to September 30, 1976 in order that the license renewals for all Windsor radio stations can be heard together at a public hearing scheduled for May 1976.

## Production

The Company's subsidiary, Glen-Warren Productions Limited and its subsidiary companies, account for most of the production revenues earned by the Company. This operation enjoyed continued growth in 1975.

During the year Glen-Warren's mobile facilities were employed throughout the United States, and as far away as San Salvador in the production of the Miss Universe Pageant. In Canada the mobile facilities were widely used including the production of Olympic Lottery telecasts.

The Toronto based studios were utilized for the production of specials for the CBS and NBC Networks in the United States including such shows as Valley Forge and an Alice Cooper special.

Glen-Warren continues to be a major source of television programs for the CTV Television Network.

## Outlook

Unsettled economic conditions and the uncertainty arising out of the recently announced wage and price guidelines make it difficult to predict the forthcoming year. However, at this point in time, advertising and production revenues are ahead of last year.

On behalf of the Board,

John Bassett

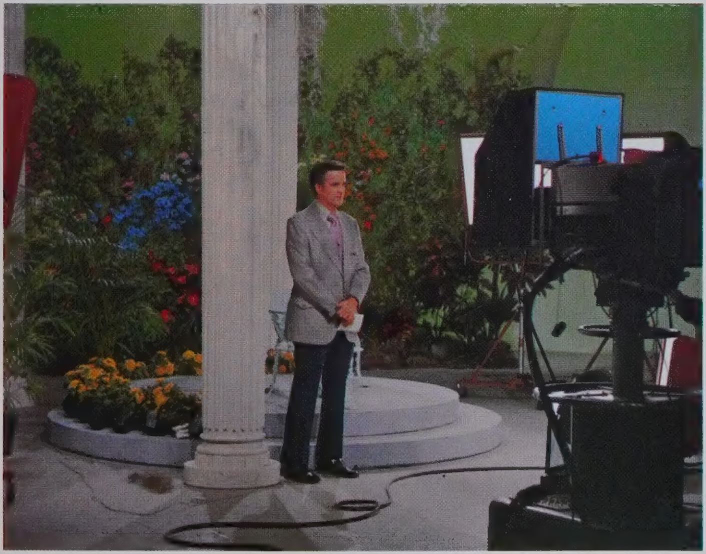
JOHN W. H. BASSETT
*President and Chairman of the Board*

*"No Place For A Happy Man," a CBS Playhouse 90 drama special, produced by Glen-Warren Productions Limited, for the CBS Network, features Eli Wallach and Anne Jackson.*

*The 1976 Miss Canada Pageant—produced in CFTO's Studio Six.*

*"Welcome To My Nightmare", a special produced by Glen-Warren Productions Limited, featured rock music star Alice Cooper and was seen on the ABC Network in the U.S.A.*

*Silhouetted on location, a CFTO camera crew shoots "Valley Forge", a Hallmark Hall Of Fame special produced by Glen-Warren Productions Limited, for the NBC Network.*



*Shot on location in Florida by a Glen-Warren Productions crew, "Day of Discovery" is syndicated throughout North America on over two hundred television stations.*

*"The Bobby Vinton Show", a successful new variety series produced at CFTO, is currently seen in Canada on the CTV Network and is syndicated on stations throughout the U.S.A.*

*In the spring of 1976, CFTO will begin to broadcast its signal from on top of the CN Tower. This important development will extend the station's off-air television signal to approximately 700,000 more persons in Ontario.*

# Consolidated Balance Sheet

August 31, 1975 (with comparative figures at August 31, 1974)

## Assets

| | 1975 | 1974 |
|---|---|---|
| **Current** | | |
| Cash and short-term investments | $ 3,086,356 | $ 3,491,297 |
| Accounts receivable | 7,538,195 | 6,723,875 |
| Inventory of programs and production materials, at the lower of cost and net realizable value | 786,436 | 797,031 |
| Prepaid expenses | 833,927 | 683,716 |
| Total Current Assets | **12,244,914** | 11,695,919 |
| **Investments** | | |
| Other companies, at cost less amounts written off | 283,053 | 307,217 |
| Productions, at cost less allowance for losses (note 1) | 158,025 | 239,933 |
| Total Investments | **441,078** | 547,150 |
| **Fixed Assets** (note 1): | | |
| Land | 2,059,809 | 1,917,008 |
| Buildings | 8,301,555 | 7,662,781 |
| Production and transmitting equipment | 15,080,298 | 13,329,267 |
| Automotive equipment, furniture and fixtures | 1,364,936 | 1,197,371 |
| | 26,806,598 | 24,106,427 |
| Less accumulated depreciation | 11,304,295 | 10,073,851 |
| Total Fixed Assets | **15,502,303** | 14,032,576 |
| **Other Assets, at cost** | | |
| Television and radio broadcasting licences and goodwill less amortization (note 1) | 7,458,357 | 7,464,667 |
| Rights to Miss Canada and Miss Teen Canada Pageants (note 1) | 197,627 | 197,627 |
| Total Other Assets | **7,655,984** | 7,662,294 |
| | **$35,844,279** | $33,937,939 |

(See accompanying notes)

# Baton Broadcasting Incorporated

(Incorporated under the laws of Ontario) and subsidiary companies

## Liabilities and Shareholders' Equity

| | 1975 | 1974 |
|---|---|---|
| **Current** | | |
| Accounts payable and accrued charges | $ 2,209,678 | $ 2,101,164 |
| Income and other taxes payable | 1,282,635 | 2,801,914 |
| Long-term debt due within one year | 171,480 | 200,210 |
| Deferred income taxes | 429,300 | 394,000 |
| Total Current Liabilities | **4,093,093** | 5,497,288 |
| **Deferred Income Taxes** | **3,514,900** | 3,609,000 |
| **Long-term Debt** (note 2) | **1,586,299** | 1,555,612 |
| **Shareholders' Equity** | | |
| Share capital – | | |
| Authorized: | | |
| 8,950,000 common shares without par value | | |
| Issued: | | |
| 6,900,000 common shares | 11,020,400 | 11,020,400 |
| Contributed surplus | 3,248,712 | 3,248,712 |
| Retained earnings | 12,380,875 | 9,006,927 |
| Total Shareholders' Equity | **26,649,987** | 23,276,039 |
| | **$35,844,279** | $33,937,939 |

On behalf of the Board:

John Bassett Director

Director

# Consolidated Statements

For the year ended August 31, 1975 (with comparative figures for 1974)

## Income

| | 1975 | 1974 |
|---|---|---|
| Revenues: | | |
| Time sales – net of agency commissions | $27,022,995 | $24,201,024 |
| Production | 10,545,236 | 9,908,936 |
| Football operating income | | 1,850,344 |
| Investment income | 301,946 | 249,018 |
| | 37,870,177 | 36,209,322 |
| Expenses: | | |
| Programing and production | 18,256,406 | 17,522,934 |
| Selling and administrative | 8,770,056 | 8,186,354 |
| Football operating expenses | | 1,512,058 |
| | 27,026,462 | 27,221,346 |
| Income before undernoted items, income taxes and extraordinary item | 10,843,715 | 8,987,976 |
| Deduct: | | |
| Interest expense | 175,751 | 340,533 |
| Depreciation (note 1) | 1,382,210 | 1,333,234 |
| | 1,557,961 | 1,673,767 |
| Income before income taxes and extraordinary item | 9,285,754 | 7,314,209 |
| Income taxes: | | |
| Current | 4,386,306 | 3,197,436 |
| Deferred – current and long-term portions | 145,500 | 506,064 |
| | 4,531,806 | 3,703,500 |
| Income before extraordinary item | 4,753,948 | 3,610,709 |
| Extraordinary item: | | |
| Gain on sale of football franchise net of income taxes thereon of $515,185 | | 1,135,620 |
| Net income for the year | $ 4,753,948 | $ 4,746,329 |

| | 1975 | 1974 |
|---|---|---|
| Earnings per share based on average of 6,900,000 shares outstanding during the year (1974 – 6,918,750): | | |
| Net earnings per share before extraordinary item | $ 0.689 | $ 0.522 |
| Net earnings per share from extraordinary item | | 0.164 |
| Total net earnings per share | $ 0.689 | $ 0.686 |

(See accompanying notes)

# Baton Broadcasting Incorporated

and subsidiary companies

## Changes in Financial Position

| | 1975 | 1974 |
|---|---|---|
| Funds provided from operations: | | |
| Income before extraordinary item | $ 4,753,948 | $ 3,610,709 |
| Add (deduct) items not involving an outlay of funds: | | |
| Accrued interest on CKLW-TV investment | | (182,042) |
| Gain on disposal of fixed assets | (72,847) | |
| Depreciation | 1,382,210 | 1,333,234 |
| Deferred income taxes – long-term portion | 155,800 | 506,064 |
| Provision for losses on non-current investments | 96,185 | 215,228 |
| Goodwill amortization | 6,310 | |
| Total from operations | 6,321,606 | 5,483,193 |
| Funds provided from: | | |
| Disposal of fixed assets | 164,385 | |
| Increase in long-term debt | 189,173 | |
| Disposal of investment in CKLW-TV | | 5,500,980 |
| Investment in productions | 159,718 | 79,011 |
| Investment in other companies | 2,164 | 1,627,232 |
| Gain on sale of football franchise | | 1,135,620 |
| Football franchise and goodwill | | 1,762,285 |
| Total funds provided | 6,837,046 | 15,588,321 |
| Funds used for: | | |
| Goodwill resulting from purchase of shares of subsidiary company | | 252,428 |
| Investment in productions | 144,995 | 111,410 |
| Purchase of fixed assets | 2,943,475 | 2,484,549 |
| Increase in investment in other companies | 7,000 | 100,066 |
| Reduction of deferred income taxes | 249,900 | 404,964 |
| Repurchase of common shares | | 312,081 |
| Dividends paid | 1,380,000 | 692,500 |
| Repayments of long-term debt | 158,486 | 5,678,398 |
| Total funds used | 4,883,856 | 10,036,396 |
| Increase in working capital during the year | 1,953,190 | 5,551,925 |
| Working capital, beginning of the year | 6,198,631 | 646,706 |
| Working capital, end of the year | $ 8,151,821 | $ 6,198,631 |

(See accompanying notes)

# Consolidated Statements

For the year ended August 31, 1975 (with comparative figures for 1974)

## Retained Earnings

| | 1975 | 1974 |
|---|---|---|
| Balance, beginning of the year | $ 9,006,927 | $ 5,161,779 |
| Net income for the year | 4,753,948 | 4,746,329 |
| | 13,760,875 | 9,908,108 |
| Excess over assigned value of common shares repurchased | | 208,681 |
| Dividends paid | 1,380,000 | 692,500 |
| | 1,380,000 | 901,181 |
| Balance, end of the year | $12,380,875 | $ 9,006,927 |

(See accompanying notes)

## Auditors' Report

To the Shareholders of Baton Broadcasting Incorporated:

We have examined the consolidated balance sheet of Baton Broadcasting Incorporated and its subsidiary companies as at August 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
November 3, 1975.

Clarkson, Gordon & Co.
Chartered Accountants

# Notes to the Consolidated Financial Statements

August 31, 1975

## 1. Accounting policies

*(a) Consolidation*

The consolidated financial statements include the financial position of all subsidiary companies at August 31, 1975 and the results of their operations for the year then ended.

*(b) Fixed assets and depreciation*

Fixed assets are shown at original cost to the Company's subsidiaries, adjusted by an increase of $2,027,025 to reflect fair values at the dates of acquisition of certain of the subsidiaries by the Company. This increase of $2,027,025 has been allocated as follows: land – $1,177,076, buildings – $384,372 and production and transmitting equipment – $465,577. Accumulated depreciation at the dates of acquisition represented depreciation previously provided by the subsidiaries on such assets, restated where necessary, to conform to the depreciation policy of the Company.

Rates and bases of depreciation applied by the Company and its subsidiaries are as follows:

| | |
|---|---|
| Buildings | – 2½% per annum on a straight-line basis |
| Production and transmitting equipment | – 7 to 12½% per annum on a straight-line basis |
| Automotive equipment | – 30% per annum on a declining balance basis |
| Office furniture and fixtures | – 10% per annum on a straight-line basis |

*(c) Income recognition*

Production revenues and costs are recognized by the Company to the extent that services have been performed under production contracts.

*(d) Investment in productions*

Where the Company acquires an interest, either as an investor or a producer, in motion pictures and theatrical productions,the amounts so invested are recorded at cost in the accounts of the Company. Profits are not reflected on any of these productions until the full value of the interest has been recovered. If it becomes apparent that future proceeds will not be sufficient to absorb the cost, the value of the interest is reduced to net realizable value.

*(e) Program and feature film contracts*

The Company is committed under various long-term contracts for the rights to broadcast programs and feature films. The cost of these contracts is reflected in the accounts as a prepaid expense as payments are made under the terms of the contracts.

The cost of each contract is amortized on a "per play" basis over its duration; if it becomes apparent that this basis will not allow the contract to be fully amortized, the rate of amortization is increased.

*(f) Translation of foreign currency*

Current assets and liabilities in U.S. dollars have been translated into Canadian dollars at the approximate rate of exchange at August 31, 1975. Long-term debt has been translated at the rate prevailing at the dates of original borrowing. Transactions during the period have been translated at the average exchange rate prevailing during the year.

*(g) Contra transactions*

In the normal course of its operations, the Company engages in contra transactions whereby goods and services are received in exchange for the provision of air time advertising on an agreed basis.

The Company's policy with regard to these transactions is as follows:

(1) Spots aired in exchange for assets or services which would otherwise be purchased for cash are reflected in the accounts at the fair market value of the goods or services received.

(2) Other spots are aired in exchange for promotional endeavours such as billboard and newspaper advertising. Since the advertising spots used for these purposes would not otherwise be sold, it is determined that their fair market value is nil. Accordingly, contra sales of this nature are not reflected in the accounts of the Company. This practice has no effect on the net income of the Company.

*(h) Goodwill, broadcasting licences and rights*

The Company's policy is not to amortize goodwill, broadcasting licences, and rights acquired prior to April 1, 1974; if it becomes apparent that the value of any component is permanently impaired, it will be written down. Goodwill acquired subsequent to April 1, 1974 totalling $252,428 is being amortized over a forty-year period.

## 2. Long-term debt

The long-term debt of the Company and its subsidiaries consists of the following:

| | August 31 | |
|---|---|---|
| | 1975 | 1974 |
| 8% promissory note, due August 25, 1981 | $ 450,000 | $ 525,000 |
| 9½% mortgage due November 1983 repayable by monthly instalments of $1,842 including interest and principal, secured by the office building and land of Confederation Broadcasting (Ottawa) Limited | 193,433 | |
| Equipment contracts, at rates of interest of 7¾% and 9%, payable over one to three years, secured by liens against such equipment | 124,682 | 214,364 |
| 9¼% mortgage due October 12, 1977, repayable by monthly instalments of $5,428 including interest and principal, secured by the office building and land of CKLW Radio Broadcasting Limited | 567,965 | 581,104 |
| 9% mortgage due May 15, 1987, repayable by monthly instalments of $4,818 including interest and principal, secured by the buildings and land of Grove Playhouse Ltd. (U.S. Dollars 421,699) | 421,699 | 435,354 |
| | 1,757,779 | 1,755,822 |
| Portion due within one year | 171,480 | 200,210 |
| | $1,586,299 | $1,555,612 |

Long-term debt repayments due in each of the next five years are as follows:

| Year ended August 31, | |
|---|---|
| 1976 | $171,500 |
| 1977 | 177,900 |
| 1978 | 647,000 |
| 1979 | 105,600 |
| 1980 | 108,500 |

## 3. Comparative figures

The 1974 comparative figures on the balance sheet, statement of income and statement of changes in financial position, have been reclassified to conform with the 1975 presentation.

## 4. Contingent liabilities

In the ordinary course of the business of the Company and its subsidiaries there are matters in suit and in dispute and other contingencies outstanding against them. In the opinion of the Company's counsel, the liabilities, if any, which may result from the resolution of these matters will not be material.

## 5. Statutory information

The aggregate remuneration paid during the year by the Company and its subsidiaries to the directors and senior officers of the Company was approximately $475,000 (1974 – $357,000).

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